

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

Statutory Review of the System  
for Regulating Rates and Classes  
for Market Dominant Products

Docket No. RM2017-3

**COMMENTS OF THE NEWS MEDIA ALLIANCE**

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(March 20, 2017)

The News Media Alliance (“NMA”) respectfully submit these comments in response to Order No. 3673,<sup>1</sup> which initiated the review required by 39 U.S.C. §3622(d)(3).

**I. Introduction And Summary**

The NMA, formerly known as the Newspaper Association of America, represents nearly 2,000 diverse news organizations in the United States and Canada—from the largest news groups and international outlets to hyperlocal news sources, from digital-only and digital-first to print news—in short, all news media content creators. Our members are known for highly-engaged audiences, quality journalism products and sophisticated digital services.

Our members use all categories of market-dominant products. They use First-Class Mail for invoices and payments; some use Periodicals for distribution; and many use USPS Marketing Mail to deliver “Total Market Coverage” (or

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<sup>1</sup> Order No. 3673 (Dec. 20, 2016) (Advance Notice of Proposed Rulemaking) (“ANPRM”).

“TMC”) program mailings. TMC mailings typically include preprinted and other advertising, often primarily for local and small businesses and targeted to a specific geographical area. These shared mail packages most frequently are mailed at USPS Marketing Mail High Density Plus and Saturation flats rates. Some members use Periodicals class mail to deliver their print newspapers, but that constitutes a much smaller portion of their postage bill.

In these comments, we address certain issues that are of paramount importance to our members, but will not address all of the questions asked by the *ANPRM*. Most importantly, the price cap system for regulating the rates for market-dominant products that Congress enacted in the Postal Accountability and Enhancement Act has successfully achieved its overarching goals. The Postal Service has reduced its costs and enjoyed substantial pricing flexibility; mailers have benefitted from generally predictable and stable rates; and the Postal Service has earned more than sufficient revenues from market-dominant products to provide universal service six days a week.

## **II. The Price Cap Has Kept Postage Prices Paid By Newspapers Predictable And Stable While Forcing The Postal Service To Reduce Its Costs**

### **A. The Postal Service Has Reduced Its Costs By \$14 Billion Annually**

Under the system established by the PAEA, the Postal Service has increased its efficiency by reducing its operating costs by approximately \$14 billion annually. The Postal Service is not alone in this; our members also have faced the need to reduce costs to reflect changing market conditions and electronic alternatives. In the case of the Postal Service, the price cap has

played an essential role by forcing the Service to reduce its costs rather than simply trying to pass them through to mailers, as was the case under the former cost-of-service system.

The Postal Service has tried to reduce its costs and become more efficient in a number of ways. Some major initiatives, such as network rationalization, the closing of many post offices, and the lowering of service standards, have contributed to reducing costs. Others, such as the Flats Sequencing System, have not worked particularly well. Although the Postal Service has changed its operations in numerous ways to become more efficient, perhaps the single most important step has been the substantial reduction in its staffing through attrition.

While these cost reductions were necessary to keep the Postal Service relevant and affordable, unfortunately member newspapers, and community newspapers in particular, that use Periodicals Mail have suffered from how the Postal Service implemented its restructuring of the mail processing network and the closing of business mail entry operations as smaller post offices were shuttered. Complaints about late deliveries, and new costs to meet critical entry times at less convenient entry points are current problems. While the Postal Service is not meeting the now-reduced service standards, it is diligently working with the industry to fix these problems. The National Newspaper Association is addressing this issue in its comments, which we endorse.

**B. Pricing Flexibility: Under The PAEA, The Postal Service Has Changed Rates Swiftly And Easily While Introducing Useful Pricing Innovations**

The PAEA allowed the Postal Service substantially more pricing flexibility than under the prior cost-of-service system, and the Postal Service has in fact made use of this added flexibility. Instead of a formal cost-of-service litigated case every few years as under the former system, the PAEA gave the Postal Service the ability to increase rates *every year* by amounts limited only by inflation. As a result, the Postal Service has been, and is, able to change rates much more quickly and without having to demonstrate any need for additional revenue. The period between the filing of a notice of price adjustment and the implementation of the new prices is usually about 90 days – much more swift than the 10-month litigated case under the former law. Nor does the Postal Service have to prepare and file hundreds of pages of testimony to justify the price increases; it need merely cite to the CPI-U.

The Postal Service's pricing flexibility also has allowed it to introduced rate design changes more easily than under the previous system. Our members are the primary users of the High Density Plus rate in USPS Marketing Mail flats. That rate is an example of an innovation that has made a material difference, helping to retain newspaper TMC mail in the system. Until the Postal Service introduced that rate, newspaper TMC programs that were increasing their volumes were uniquely midway between the High Density and Saturation tiers. The High Density Plus rate provided an incentive for TMC programs to reach that density level. Other examples of pricing innovations in USPS Marketing mail

enabled by the PAEA that have proven to be of use to newspapers include the various Saturation mail incentives introduced over the past decade.

**C. The Price Cap Has Led To Predictability And Stability In Rates For Newspaper TMC Programs**

While the PAEA has given the Postal Service substantial flexibility over the timing, the speed, and the nature of price adjustments, the CPI-U cap has provided mailers with a greater degree of rate predictability and stability compared to the previous system. Except for the period during which the exigent surcharge was in effect, postage rates have remained at predictable levels generally close to inflation at the class level. Although the cap applies on a class basis, thus allowing unequal rate changes within a class, on balance price adjustments within USPS Marketing Mail have been more predictable than before the PAEA became law.

**III. The Price Cap System Has Allowed The Postal Service More Than Adequate Revenues From Market-Dominant Products**

The price cap system established by the PAEA has allowed the Postal Service to receive more than sufficient revenues to provide market-dominant services. Revenues from market-dominant products have consistently, year-after-year, easily recovered not merely the costs attributable to providing those products, but have paid the vast majority of the institutional costs of the Postal Service.

Under the PAEA system, the Postal Service has provided universal service, six days a week, throughout the past decade. It has done so despite a major recession, a persistent decline in volume, electronic diversion, and an

ever-growing number of delivery points (indeed, although the Postal Service views the growth in delivery points as a cost, it increases the value of its network).

Nonetheless, the Postal Service has continued to provide universal service throughout the past decade because its cash flow is quite solid. The recession was unkind to the Postal Service, as it was for many businesses including newspapers, but as the economy has stabilized and grown, so too has the Postal Service's cash position. The Postal Service's most recent Form 10-K reports a net increase in cash of \$1.443 billion in Fiscal Year 2016. *USPS FY2016 10-K*, at 30. Over the past three years, the Postal Service's net cash and cash equivalents at year-end have increased from \$2.326 billion to \$8.077 billion. *Id.*, at 42. To the extent that the recession harmed the Postal Service, the Commission has already found that the exigency surcharge fully compensated the Postal Service for the net adverse financial impact of the recession. In short, the PAEA has provided more than sufficient funds for the Postal Service to cover operating and controllable expenses – including personnel, capital, facilities, workers' compensation, and the annual cost of retiree health benefits -- throughout the past decade.

The Postal Service has achieved this under the current system despite incurring a negative balance sheet (according to generally accepted accounting principles).<sup>2</sup> That fact alone should indicate that it is a mistake to focus on the

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<sup>2</sup> The Postal Service's balance sheet would look far better if it included the market value of the Service's real estate and the more than \$300 billion in its pension funds. Although these are not included on a GAAP balance sheet, they are certainly relevant to the Service's financial strength.



Postal Service's balance sheet, rather than its cash flow. Indeed, if the financial "at risk" such as Z-Scores measures calculated by the Commission in recent years were pertinent to the Postal Service, the Service would have ceased operations several years ago. It has not.

This negative balance sheet is almost entirely attributable to the Postal Service's defaulted prepayments to the Retiree Health Benefit Fund. That prefunding requirement is completely separate from the ratesetting system for market-dominant products that is the subject of this review. Furthermore, that the Service has missed several of the prepayments without any discernible adverse consequence is evidence that the GAAP balance sheet is not a useful tool for assessing the Postal Service. A realistic assessment of the situation suggests that cash flow is a much more appropriate measure for a governmental institution such as the Postal Service. By that measure, the Service is doing well under the current system.

#### **IV. Conclusion**

Accordingly, the News Media Alliance respectfully recommends that the Commission make no changes in the current system for regulating the prices of market-dominant postal products.

Respectfully submitted,

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